

# **Montana Teachers' Retirement System**



## **Members' Retirement Termination Pay Training**

### **PRE-RETIREMENT PLANNING AS RELATED TO TERMINATION PAY**

Pre-retirement planning is an important part of the retirement process. The decisions to be made relative to your termination pay are part of the pre-retirement planning process.

At the time you contact the TRS office to request assistance with pre-retirement planning, the TRS will provide an estimate of benefits to assist with the planning process. If it is anticipated that you will be eligible for termination pay, you will need to contact your business office for a confirmation of the amount of the termination pay. Upon receipt of this information, the TRS will provide an estimate of benefits that will include termination pay in the calculation of average final compensation. Average final compensation is one of the factors used to calculate your monthly retirement benefit.

## **TERMINATION PAY DEFINITION**

Termination pay includes any form of:

- ☐ Vacation Pay
- ☐ Sick Leave
- ☐ Severance pay
- ☐ Amounts provided under an early termination incentive plan
- ☐ Other payments contingent on you terminating your employment, being paid at the time of termination.



As a TRS member you are permitted to pay additional employee contributions to the TRS in order to include termination pay in the calculation of your monthly retirement benefit to fund an increased benefit.

## **TERMINATION PAY OPTIONS**

There are three options available to you, relative to your termination pay. However, only two of the options will increase your monthly retirement benefit by including the termination pay received in the calculation of your average final compensation.

If, at the time of termination and retirement, you are eligible to receive termination pay and wish to include the termination pay in the calculation of average final compensation, you must select either Option 1 or Option 2.

The option selected will determine how that payment is to be processed by your employer.



## TERMINATION PAY - OPTION 1

If you elect Termination Pay - Option 1, the TRS will add the total amount of your 'Termination Pay' to the three highest consecutive salaries used in the calculation of the average final compensation that is used to calculate your monthly retirement benefit.

You and your employer will pay the required contributions to adequately compensate the TRS for the additional benefit.



### Option 1 - Example

The following example represents a TRS member retiring at age 60, electing Termination Pay Option 1. The contributions due the TRS on termination pay are calculated on an individual basis, based upon your age and service credit at the time of retirement.

#### Employee Cost Calculation

Termination Pay		Employee Contribution Rate		Years of Service		Your Cost
\$ 5,000.00	X	3.36%	X	30.00	=	\$ 5,040.00

- ☐ In this example, electing this option increases your monthly retirement benefit by \$57.87 per month, for the rest of your life.
- ☐ 'Your cost' is taken out of the termination pay being paid to you by your employer.

#### Employer Cost Calculation

Termination Pay		Employer Contribution Rate		Years of Service		Employer Cost
\$ 5,000.00	X	3.51%	X	30.00	=	\$ 5,265.00

- ☐ The employer cost is paid from the individual county retirement fund.

## TERMINATION PAY – OPTION 2

If you elect Termination Pay - Option 2, the TRS will divide the termination pay amount by the total number of years of credited service (Example:  $\$5,000.00 \div 30.00 =$  a yearly amount of  $\$166.66$ ). The yearly amount of termination pay is then added to each of the three highest consecutive salaries used in the calculation of your average final compensation.

You and your employer will pay the required contributions to adequately compensate the TRS for the additional benefit.



### Option 2 - Example

#### Employee Cost Calculation

Termination Pay		Employee Contribution Rate		Your Cost
\$5,000.00	X	7.15%	=	\$357.50

- ❑ In this example, electing this option increases your monthly retirement benefit by \$6.94 per month, for the rest of your life.

#### Employer Cost Calculation

Termination Pay		Employer Contribution Rate		Employer Cost
\$5,000.00	X	9.47%	=	\$473.50

- ❑ The employer cost is paid from the individual county retirement fund.

### **TERMINATION PAY - OPTION 3**

If you elect Termination Pay - Option 3, the termination pay is excluded from the calculation of your average final compensation.

- ❑ No contributions are due the TRS from you or your employer.
- ❑ Your employer will withhold the appropriate tax withholdings and remit the net amount to you.



### **TERMINATION PAY IRREVOCABLE ELECTION**

If you elect to include termination pay in the calculation of your average final compensation, under Option 1 or Option 2, you have the option to have your contributions deducted from the termination pay on a tax-deferred basis, by your employer. Eligibility to have your contributions due the TRS on termination pay paid with tax-deferred dollars is contingent upon you properly executing a Termination Pay - Irrevocable Election Form, at least ninety days prior to your date of termination.


The Termination Pay – Irrevocable Election Form is an irrevocable payroll deduction authorization to allow you to reinvest your contributions due the TRS on a tax-deferred basis.

## Termination Pay – Irrevocable Election Form

If you elect to execute a Termination Pay – Irrevocable Election Form:

- ☐ Your employer is required to withhold and remit to the TRS the contributions from your termination pay.
- ☐ The binding irrevocable election is effective on the date the form is signed by you and your employer.
- ☐ The irrevocable election is only valid with your current employer. If you change employers, you must sign a new irrevocable election authorization.
- ☐ Signing the irrevocable election is not be construed as a commitment for retirement on a specific date.
- ☐ Once the irrevocable election is signed:
  - You may not choose a different option.
  - You do not have the option to have only a portion of your termination pay amount reported to the TRS.
  - You may not prepay any portion of the employee contributions.

The following is a Termination Pay – Irrevocable Election Form as will be provided by the TRS, for your election.

 <b>MONTANA TEACHERS' RETIREMENT SYSTEM</b> 1500 E. 8TH AVE. P.O. BOX 200139 HELENA, MT. 59620-0139 406-444-3134		TRS Office Use Only
<b>TERMINATION PAY - IRREVOCABLE ELECTION FORM</b>		
READ INSTRUCTIONS ON REVERSE SIDE. ALL REQUESTED INFORMATION MUST BE PRINTED OR TYPED LEGIBLY IN DARK INK.		
<b>MEMBER INFORMATION:</b>		
(Member's Printed Name) _____		(Social Security Number) _____
(Home Mailing Address – Including City, State & Zip+4 Code (If unknown, use 5-digit Zip Code)) _____		
(Area Code and Telephone Number) _____		(Date of Birth) _____
I hereby elect to use termination pay in the calculation of average final compensation in compliance with option:		
OPTION 1	I elect to add the total amount of my termination pay to the three highest consecutive salaries used in the calculation of my "average final compensation" (AFC). My employer and I shall pay the required contributions to the retirement system, to adequately compensate the Montana Teachers' Retirement System (TRS) for the additional benefit.	Initial one option
OPTION 2	I elect to add a portion of my termination pay to the three highest consecutive salaries. I understand that the termination pay is divided by my total years of creditable service to determine a yearly amount. The yearly amount of termination pay is then added to each of the three consecutive year's salary used in the calculation of my AFC. My employer and I shall pay the required contributions to the retirement system, to adequately compensate the TRS for the additional benefit.	
At the time of my termination and retirement, I hereby direct my employer to deduct from my termination pay the contributions due the TRS. I further understand that my contributions will be withheld on a tax-deferred basis and remitted to the TRS, by the employer. I acknowledge I have read and understand the Termination Pay Irrevocable Election Instructions on the backside of this form. By signing below I acknowledge that I am entering into an irrevocable contract.		
(Member's Printed Name) _____		
(Member's Signature) _____		(Date) _____
<b>EMPLOYER INFORMATION:</b>		
(Name of School District) _____		(TRS Six Digit Employer Number) _____
(Mailing Address – Including City, State & Zip+4 Code (If unknown, use 5-digit Zip Code)) _____		
(Area Code and Telephone Number) _____		
By signing this form, the employer acknowledges their obligation to remit to the TRS all employee and employer contributions due on the total termination pay amount payable to the employee.		
(Certifying Officer's Printed Name) _____		(Title) _____
(Certifying Officer's Signature) _____		(Date) _____
IN COMPLIANCE WITH THE ANTI-SHIELDING ACT OF 1992, ALL INFORMATION ON THIS DOCUMENT WILL BE PROVIDED UPON REQUEST.		
TRS Form 129 <span style="float: right;">Page 1 of 2</span> <span style="float: right;">Revised 07/2007</span>		

The TRS will provide the election form with an estimate of benefits. You will need to complete the 'Member Information' section.

Elect Option 1 or Option 2 by initialing the option of choice.

Read the acknowledgement, sign and date the form.

The form is to be forwarded to your business office for completion of the 'Employer Information' section. Your employer will return the properly completed form to the TRS. This information will be retained on file until you elect to terminate your employment and apply for a monthly retirement benefit.

## TERMINATION PAY – IRREVOCABLE ELECTION CALCULATION FORMULA

The following formula is used to determine if you are eligible for a cash payment after the termination pay contributions are withheld and remitted or if you will be required to pay an amount, out of pocket.

- The tax-deferred contributions are limited to the gross amount of the termination pay, less any social security tax deduction.
- If, after social security is deducted, the net amount of the termination pay is less than the calculated contributions due the TRS, you must send the TRS a personal check for the balance due.

Termination Pay Amount  
Less FICA/Medicare (7.65%)  
 Net Amount (Tax Deferred)  
Less Calculated TRS Contribution  
 A balance remaining will be paid To Member

OR

A balancing owing results in an Out Of Pocket Expense  
 (Personal check must be made Payable To TRS)



## Termination Pay - Irrevocable Election Calculation Age 60 - Example

The following table provides a comparison of cost for TRS members retiring with various years of service. Please keep in mind the calculation is individualized for each retiring member.

	25 Years	30 Years	35 Years
Term Pay Amount	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00
FICA/Medicare 7.65%	(\$ 382.50)	(\$ 382.50)	(\$ 382.50)
Net Amount	\$ 4,617.50	\$ 4,617.50	\$ 4,617.50
Contributions Due TRS	(\$4,200.00)	(\$5,040.00)	(\$ 5,880.00)
Difference	\$ 417.50	(\$ 422.50)	(\$ 1,262.50)
	Net Amount Made Payable to You	(Out of Pocket Expense)	(Out of Pocket Expense)
Monthly Benefit Increase	\$ 57.87	\$ 69.44	\$ 81.02
Recovery time		6 months	16 months

## TERMINATION PAY – IRREVOCABLE ELECTION FORM NOT SIGNED

If you did **not** sign a Termination Pay – Irrevocable Election Form or if the form was not properly completed, you are eligible to elect to use termination pay in the calculation of your average final compensation, under Option 1 or Option 2.

- ❑ Your contributions due the TRS will be subject to state and federal income taxes and may be limited under Section 415 of the Internal Revenue Code.
  - If contributions are limited, you will not be allowed to include the full amount of the termination pay in the calculation of your average final compensation.
  - You must send the TRS a personal check for the total amount due to fund your increase in benefits.
  - The employee and employer contributions due on termination pay are due by the 15th of the month following your date of termination.

## TRS ON-LINE BENEFIT ESTIMATE CALCULATOR

If you do not have immediate plans for retirement you may wish to navigate to TRS web site at <http://www.trs.mt.gov>. Click on the “Members” menu option and select the “Benefit Estimate System.” If this is the first time using the system, click on the **Create an Account** link.

- ❑ Enter the requested sign-up information and the TRS will provide your USER ID, via E-Mail.



The on-line estimate program is for pre-retirement planning use and is not a substitute for contacting the TRS and requesting an estimate of retirement benefits and the retirement application packet.



## **PRE-RETIREMENT PLANNING**

Before electing to have tax-deferred contributions deducted from termination pay, the TRS recommends you request and review an estimate of benefits provided by TRS staff, to plan for any out of pocket retirement termination pay expense.

Thank you for taking the time for this Retirement Termination Pay Training. If you have any questions relative to the use of termination pay in the calculation of your monthly retirement benefit, the tax-deferred option or would like assistance with pre-retirement planning, please contact the TRS office.

